

B U S I N E S S S I T U A T I O N

This article was prepared by Daniel Larkins, Larry R. Moran, Ralph W. Morris, and Deborah Y. Steff.

REAL GROSS domestic product (GDP) increased 3.5 percent in the third quarter of 1997 after increasing 3.3 percent in the second quarter, according to the "advance" estimates of the national income and product accounts (NIPAs) (chart 1 and table 1).¹ Real final sales of domestic product increased 5.0 percent after increasing 2.5 percent. The price index for gross domestic purchases increased 1.2 percent after increasing 0.8 percent.

The largest contribution to the increase in real GDP was made by personal consumption expenditures (PCE), which increased 5.7 percent, as expenditures on durable goods, on nondurable

goods, and on services all increased substantially.² Nonresidential fixed investment also contributed to the increase in GDP; producers' durable equipment increased 22.1 percent, and structures increased 10.1 percent. Exports of goods and services increased 5.6 percent, largely reflecting an increase in exports of nonautomotive capital goods.³ Partly offsetting these positive contributions to GDP growth were negative contributions

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded index numbers. Real estimates are expressed in chained (1992) dollars. Price indexes are chain-type measures.

2. NIPA table 8.2 shows the contributions of the major components to the quarter-to-quarter percent change in real GDP.

3. Exports and imports of nonautomotive capital goods include both parts and equipment. In contrast, parts are *not* included in the producers' durable equipment component of business fixed investment or in the equipment component of government investment.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

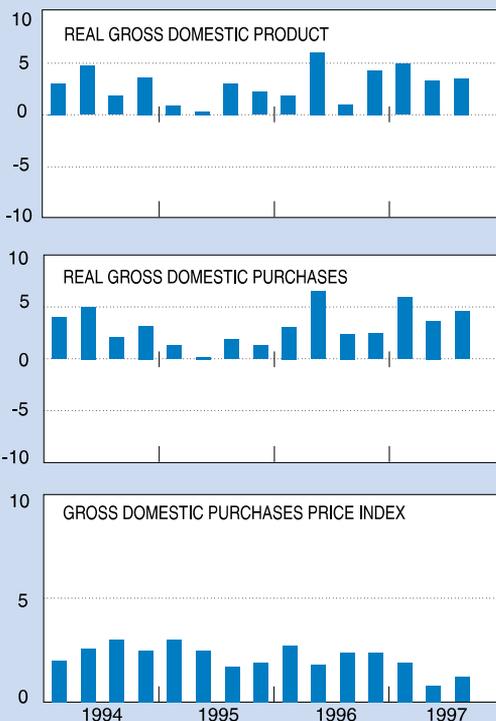
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1997			
		1997	1996	1997			1996	1997	
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	7,221.8	73.6	84.2	58.0	62.2	4.3	4.9	3.3	3.5
Less: Exports of goods and services	975.7	49.7	21.6	39.8	13.2	25.5	9.9	18.4	5.6
Plus: Imports of goods and services	1,135.6	16.4	42.3	50.2	36.5	6.8	17.9	20.5	14.0
Equals: Gross domestic purchases	7,368.8	43.1	102.5	66.0	81.9	2.5	5.9	3.7	4.6
Less: Change in business inventories	51.5	-5.0	30.8	13.9	-26.1	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	7,310.9	46.3	70.4	51.6	106.2	2.7	4.0	2.9	6.0
Personal consumption expenditures	4,897.1	38.2	61.7	11.3	67.7	3.3	5.3	.9	5.7
Durable goods	653.8	5.2	20.7	-8.8	24.8	3.5	14.1	-5.4	16.7
Nondurable goods	1,466.8	7.3	16.6	-7.8	16.8	2.1	4.7	-2.1	4.7
Services	2,777.8	25.4	25.7	25.9	28.0	3.9	3.9	3.9	4.1
Private nonresidential fixed investment	873.7	11.5	8.1	28.1	36.7	5.9	4.1	14.6	18.7
Structures	198.2	6.9	-1.0	-2.4	4.7	15.3	-2.1	-4.7	10.1
Producers' durable equipment	682.6	3.8	9.9	32.7	33.3	2.6	6.7	23.0	22.1
Private residential investment	280.2	-3.0	2.2	4.9	2.0	-4.3	3.3	7.4	2.8
Government consumption expenditures and gross investment	1,273.3	.3	-1.3	9.6	3.2	.1	-4	3.1	1.0
Federal	458.8	-6.1	-6.8	7.3	-1.3	-5.2	-5.8	6.6	-1.2
State and local	814.5	6.4	5.4	2.4	4.4	3.3	2.7	1.2	2.2
Addendum: Final sales of domestic product	7,164.0	76.7	52.4	43.6	86.3	4.5	3.0	2.5	5.0

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.2, 1.4, and 1.6. Percent changes are found in table 8.1.

CHART 1

Selected Measures: Change From Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

from inventory investment and imports of goods and services. Inventory investment (that is, change in business inventories) decreased \$26.1 billion, reflecting a slowdown in the accumulation of inventory stocks. Imports, which are subtracted in the calculation of GDP, increased 14.0 percent, as imports of nonautomotive capital goods increased substantially.

Motor vehicles.—Real motor vehicle output increased 23.6 percent in the third quarter after

decreasing 10.7 percent in the second, and final sales of motor vehicles to domestic purchasers increased 26.0 percent after decreasing 13.7 percent (table 2). Both autos and trucks contributed to the upswings.⁴

Most of the upswing in final sales was accounted for by consumer purchases, although factors frequently considered in analyses of consumer spending were much the same in the third

4. A longer term perspective on motor vehicles is provided in "Motor Vehicles, Model Year 1997" in this issue.

Third-Quarter 1997 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the third quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3) and unit auto and truck sales (3);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), aircraft shipments (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2) and single-family housing starts (3);

Change in business inventories: Manufacturing and trade inventories (2) and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (2), and State and local employment (3);

GDP prices: Consumer Price Index (3), Producer Price Index (3), U.S. Import and Export Price Indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 1997:III

[Billions of dollars, seasonally adjusted at annual rates]

	1997					
	April	May	June	July	August	September ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	156.5	160.0	159.2	165.3	163.9	165.9
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft	31.7	34.7	30.9	42.6	31.2	27.0
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	162.5	161.6	160.6	161.4	161.2	165.5
2-or-more-unit structures	22.7	23.7	22.2	21.8	22.1	22.2
Change in business inventories nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade	46.8	35.1	64.8	17.6	28.6	41.9
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	685.9	682.5	688.5	680.9	681.8	693.1
Excluding nonmonetary gold	675.0	674.8	679.3	677.6	678.5	690.1
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	872.3	878.8	871.5	883.1	890.3	897.2
Excluding nonmonetary gold	860.2	868.1	861.4	880.1	887.7	894.2
Net exports of goods (exports less imports)	-186.4	-196.3	-183.0	-202.2	-208.5	-204.1
Excluding nonmonetary gold	-185.2	-193.3	-182.1	-202.5	-209.2	-204.1
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	124.6	121.8	123.2	124.1	122.9	123.6

1. Assumed.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

quarter as in the second. Growth of real disposable personal income was 2.9 percent in the third quarter, compared with 3.1 percent in the second. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) increased from a high level, 103.0, to an even higher one, 105.8. The unemployment rate was unchanged at 4.9 percent. Among factors specific to motor vehicle purchases, interest rates on new-car loans made by commercial banks decreased from 9.2 percent to 9.0 percent. Manufacturers offered more attractive sales-incentive programs than in the second quarter. These programs included rebates and below-market-rate financing; average interest rates for new-car loans made by motor vehicle finance companies decreased to 6.3 percent from 8.0 percent.

Business purchases also contributed to the upswing in final sales. Sales to government increased about as much as in the second quarter.

Motor vehicle inventory investment increased slightly more than in the second quarter; the third-quarter increase reflected a step-up in the accumulation of car inventories. Nevertheless, the inventory-sales ratio for new domestic autos, which is calculated from units data, edged down from 2.4 (the traditional industry target) at the end of the second quarter to 2.3 at the end of third.

Prices

The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 1.2 percent in the third quarter after increasing 0.8 percent in the second (table 3). Excluding the relatively volatile food and energy components, prices of gross domestic purchases increased 1.0 percent after increasing 1.6 percent (chart 2).

Prices of PCE increased 1.4 percent after increasing 1.0 percent. The step-up was more than accounted for by food and energy prices. Food prices increased 3.4 percent after increasing 1.6 percent; the price of beef and veal accelerated, and the prices of fresh fruits and vegetables turned up. PCE energy prices increased 2.5 percent after decreasing 15.7 percent; prices of gasoline and oil and of gas turned up, and the price of fuel oil and coal decreased less than in the second quarter. Prices of PCE other than food and energy increased 1.0 percent after increasing 2.0 percent; the price of clothing and shoes turned down, and the prices of transportation and of medical care slowed.

Prices of nonresidential fixed investment decreased 0.9 percent after decreasing 1.5 percent; prices of structures increased about the same as in the second quarter, and prices of producers' durable equipment (PDE) decreased less than in

Table 2.—Motor Vehicle Output, Sales, and Inventories

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1996	1997		
	1997	1996	1997				IV	I	II
	III	IV	I	II	III				
Output	253.7	-10.3	11.0	-6.9	13.1	-15.7	19.9	-10.7	23.6
Autos	124.6	-14.2	6.0	-2.9	7.8	-37.5	22.5	-9.3	29.7
Trucks	128.9	3.9	5.0	-4.0	5.3	13.8	17.6	-12.0	18.1
Less: Exports	25.7	1.3	-3	1.1	-7	23.4	-4.5	17.8	-10.4
Autos	16.2	-3	-2	1.4	-8	-7.4	-5.0	39.8	-16.3
Trucks	9.5	1.6	0	-4	.1	108.0	-3.6	-12.3	1.1
Plus: Imports	84.5	-3.7	10.4	-2.2	4.9	-18.4	72.6	-10.5	27.0
Autos	68.9	-2.6	8.4	-1.9	3.2	-15.3	69.9	-11.2	20.9
Trucks	15.6	-1.3	2.1	-3	1.7	-31.7	86.5	-7.0	59.0
Equals: Gross domestic purchases	312.4	-15.1	21.4	-10.0	18.5	-18.9	34.1	-12.6	27.8
Autos	177.1	-16.3	14.3	-6.1	11.7	-32.7	41.8	-13.5	31.4
Trucks	135.2	1.2	7.1	-3.9	6.9	3.9	24.8	-11.5	23.3
Less: Change in business inventories	3.9	-14.5	12.5	.9	1.3	.....	.....	.....	.....
Autos	3.0	-11.9	6.1	2.7	2.1	.....	.....	.....	.....
Trucks .....	.9	-2.6	6.5	-1.9	-8	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	308.5	-1.1	9.4	-10.9	17.3	-1.5	13.4	-13.7	26.0
Autos	174.0	-4.7	8.4	-8.7	9.6	-10.7	21.8	-18.6	25.5
Trucks	134.3	3.6	1.0	-2.2	7.7	12.2	3.2	-6.7	26.7
Addenda:									
Personal consumption expenditures	179.4	-1.9	4.8	-9.0	10.3	-4.2	11.5	-18.8	26.7
Producers' durable equipment	121.2	.1	3.9	-2.1	6.6	.3	14.5	-7.0	25.1
Gross government investment	9.4	.8	.7	.4	.5	49.1	43.3	18.5	24.5

NOTE.—See note to table 1 for an explanation of chained (1992) dollars. Truck output includes new trucks only; auto output includes new cars and used cars. Chained (1992) dollar levels for

motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are found in NIPA tables 1.4, 8.5, and 8.7.

the second quarter. The price of computers decreased less than in the second quarter, the price of industrial equipment turned up, and the price of transportation equipment accelerated. Prices of private residential investment increased 3.4 percent, the same as in the second quarter.

Prices of government consumption expenditures and gross investment also increased at the same rate as in the second quarter, 1.4 percent; a slowdown in prices paid by the Federal Gov-

ernment was offset by a step-up in prices paid by State and local governments. In the Federal Government, most of the slowdown was accounted for by national defense. In State and local government, prices increased 1.9 percent after increasing 1.5 percent; prices of consumption expenditures more than accounted for the step-up, as prices of gross investment slowed substantially.

The GDP price index increased 1.4 percent after increasing 1.8 percent. This index measures the prices paid for goods and services produced in the United States; unlike the price index for gross domestic purchases, it includes the prices of exports and excludes the prices of imports. Export prices decreased 1.8 percent after decreasing 0.7 percent; prices of agricultural exports decreased more than in the second quarter, while prices of nonagricultural exports decreased the same amount as in the second quarter. Import prices

Table 3.—Price Indexes

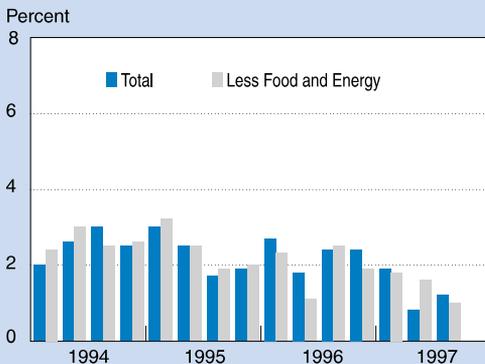
[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

	1996		1997	
	IV	I	II	III
Gross domestic product	1.9	2.4	1.8	1.4
Less: Exports of goods and services	-4.3	-1.8	-7	-1.8
Plus: Imports of goods and services	0	-5.3	-7.6	-2.8
Equals: Gross domestic purchases	2.4	1.9	.8	1.2
Less: Change in business inventories				
Equals: Final sales to domestic purchasers	2.4	2.0	.9	1.3
Personal consumption expenditures	3.0	2.2	1.0	1.4
Food	3.9	1.4	1.6	3.4
Energy	9.5	7.7	-15.7	2.5
Other personal consumption expenditures	2.4	2.0	2.0	1.0
Private nonresidential fixed investment	-1.5	-2.0	-1.5	-9
Structures	2.5	2.8	3.9	4.0
Producers' durable equipment	-3.0	-3.8	-3.5	-2.6
Private residential investment	2.6	2.0	3.4	3.4
Government consumption expenditures and gross investment	2.5	3.5	1.4	1.4
Federal	2.5	4.9	1.3	.6
National defense	2.8	4.3	1.1	.2
Nondefense	1.7	6.1	1.5	1.3
State and local	2.5	2.7	1.5	1.9
Addendum:				
Gross domestic purchases less food and energy	1.9	1.8	1.6	1.0

NOTE.—Percent changes in major aggregates are found in NIPA table 8.1. Most index number levels are found in tables 7.1 and 7.2.

CHART 2

Gross Domestic Purchases Prices: Change From Preceding Quarter

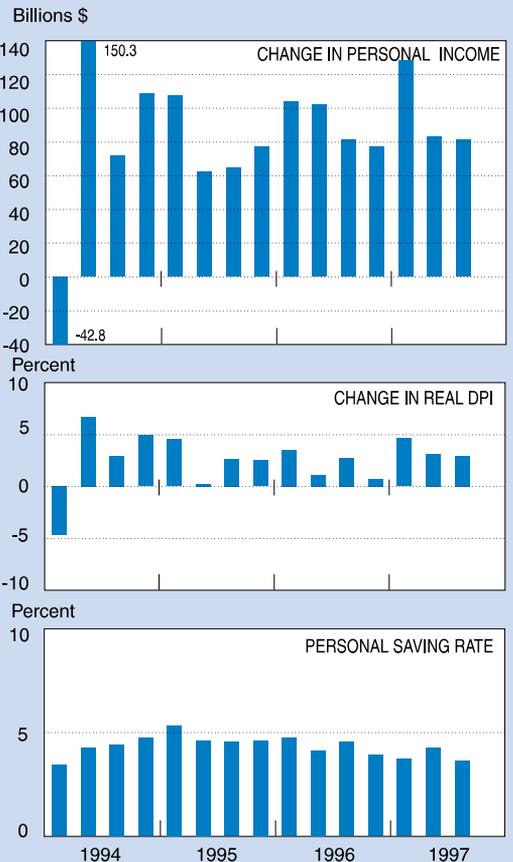


Note—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1992=100).

U.S. Department of Commerce, Bureau of Economic Analysis

CHART 3

Selected Personal Income and Saving Measures



Note—Changes are from preceding quarter, based on seasonally adjusted annual rates.

U.S. Department of Commerce, Bureau of Economic Analysis

decreased 2.8 percent after decreasing 7.6 percent; petroleum prices decreased much less than in the second quarter.

changes very similar to those in the second quarter. 

Personal income

Real disposable personal income (DPI) increased 2.9 percent in the third quarter after increasing 3.1 percent in the second (chart 3). Current-dollar DPI increased \$62.5 billion, or 4.3 percent, after increasing \$59.4 billion, or 4.2 percent. The personal saving rate (saving as a percentage of current-dollar DPI) decreased to 3.6 percent from 4.2 percent, reflecting a sharp acceleration in outlays.

Personal income increased \$80.7 billion after increasing \$82.9 billion (table 4). The difference between the changes in personal income and those in DPI reflects personal tax and nontax payments, which increased \$18.2 billion after increasing \$23.5 billion.

Wage and salary disbursements increased \$54.5 billion after increasing \$50.1 billion. Disbursements in all major industries except goods-producing industries increased more than in the second quarter. A step-up in private industry wages and salaries was accounted for by a slight acceleration in average hourly earnings; in contrast, employment increased less than in the second quarter, and average weekly hours were about the same as in the second quarter.

Farm proprietors' income decreased \$2.4 billion after increasing \$3.4 billion. Both real farm product and farm prices contributed to the downturn.

Transfer payments to persons increased \$8.2 billion after increasing \$9.8 billion. The remaining components of personal income posted

Table 4.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
		1997	1997			
	III	IV	I	II	III	
Wage and salary disbursements	3,896.1	54.1	74.6	50.1	54.5	
Private industries	3,228.7	50.6	65.8	45.9	49.1	
Goods-producing industries	961.8	10.6	15.1	9.9	9.0	
Manufacturing	706.3	5.5	8.5	6.2	6.0	
Distributive industries	879.6	11.6	16.2	10.2	12.6	
Service industries	1,387.3	28.4	34.6	25.7	27.5	
Government	667.4	3.4	8.9	4.2	5.4	
Other labor income	418.0	.7	3.2	2.8	2.9	
Proprietors' income with IVA and CCAAdj	547.3	4.5	6.3	9.0	3.7	
Farm	41.2	.3	-2	3.4	-2.4	
Nonfarm	506.1	4.2	6.5	5.6	6.1	
Rental income of persons with CCAAdj	147.9	1.2	-2	-3	-8	
Personal dividend income	324.5	3.2	17.3	5.8	6.2	
Personal interest income	775.6	7.1	7.4	8.9	9.5	
Transfer payments to persons	1,125.2	9.1	25.7	9.8	8.2	
Less: Personal contributions for social insurance	324.8	3.3	6.7	3.1	3.5	
Personal income	6,909.8	76.5	127.8	82.9	80.7	
Less: Personal tax and nontax payments	997.4	25.3	33.1	23.5	18.2	
Equals: Disposable personal income	5,912.4	51.2	94.7	59.4	62.5	
Less: Personal outlays	5,701.2	84.8	99.2	28.2	98.4	
Equals: Personal saving	211.1	-33.6	-4.5	31.1	-35.9	
Addenda: Special factors in personal income:						
In wages and salaries:						
Federal Government and Postal Service pay adjustments, including "buyouts"	4.3	0	4.4	-2	-1	
In transfer payments to persons:						
Social security retroactive payments	0	1.1	-1.1	0	0	
Cost-of-living adjustments in Federal transfer programs	13.5	0	13.5	0	0	
Earned Income Tax Credit payments	21.2	0	4.3	0	0	
In personal contributions for social insurance:						
Social security base changes and increase in premium for supplementary medical insurance	2.1	0	2.1	0	0	
In personal tax and nontax payments:						
Recent tax law changes	-9.2	-1	-4.1	0	0	

NOTE.—Most dollar levels are found in NIPA table 2.1.

IVA Inventory valuation adjustment

CCAAdj Capital consumption adjustment